



CITY OF HART, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

City of Hart, Michigan

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INDEPENDENT AUDITORS' REPORT

December 19, 2008

Honorable Mayor and
Members of the City Council
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hart, Michigan (the "City"), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Hart, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hart, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008, on our consideration of the City of Hart's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hart's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Hart's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in Note 11 to the financial statements, capital assets were restated during the current year. Accordingly, beginning net assets of governmental activities as of July 1, 2007 have been restated to adjust these balances.

A handwritten signature in cursive script, reading "Lehmann Lohman".

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Hart, Michigan

Management's Discussion and Analysis

Management's discussion and analysis of the City of Hart, Michigan's financial performance provides an overview of the City's financial activities for the year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

Management has prepared the following highlights that summarize the financial trends at the City of Hart, Michigan.

- The City's net assets increased \$1,481,000 (or 8.3%). The governmental net assets increased by \$563,000 (or 45.8%) and the business-type net assets increased by \$918,000 (or 5.6%).
- Total City-wide revenues including all program and general revenues were \$8,154,000, an increase of \$868,000 (or 11.9%).
- Governmental revenues increased by \$506,000 (or 32.2%) and the business-type revenues increased by \$362,000 (or 6.3%).
- Total electric, water, and sewer operating revenues were \$5,682,000, an increase of \$605,000 over the prior year. The three most recent years of operating revenue are summarized here:
 - FY2006 -- \$4,514,000
 - FY2007 -- \$5,077,000 (12% increase)
 - FY2008 -- \$5,682,000 (12% increase)
- Electric, water and sewer functions had operating income of \$693,000 comprised of \$654,000 hydro income and \$39,000 water/sewer income. The three most recent years of combined operating income is summarized here:
 - FY2006 -- \$84,000
 - FY2007 -- \$324,000
 - FY2008 -- \$693,000
- The City benefited from capital grants (non-operating income) in the amount of \$630,000.
- Property tax revenues increased by \$34,000 to \$817,000.
- Utility (business-type) charges for services increased by \$579,000 (or 10.8%) while utility expenses increased by only \$150,000 (or 3%).

- Total expenses of all of the City's programs were \$6,673,000, an increase of \$24,000 (or 0.3%). The governmental expenses decreased by \$59,000 and the business-type expenses increased by \$83,000 (or 1.6%).
- The City completed repairs, safety improvements, and a complete interior and exterior blast and repaint of the Old City Elevated Water Storage Tank in September, 2007 at a cost of \$250,000. The City received a Community Development Block Grant in the amount of \$145,000 for this project.
- The City cooperated with the Starting Block kitchen incubator in receiving state and federal grants in the amount of \$460,000 to acquire the building and kitchen equipment at 1535 Industrial Park Drive for their permanent home. The City leases the building to the Starting Block who provides startup services and a commercial kitchen to entrepreneurs in the food business.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the City's net assets and changes in them. The reader can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets (roads, buildings, water and sewer lines) to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the public safety, general administration, parks and streets. Property taxes and State Shared Revenues finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services provided. The City's electric, water and sewer system is reported here.

Reporting the City's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council has established several other funds to help it control and manage money for particular purposes. The City's two types of funds, governmental and proprietary, use different accounting approaches.

- Governmental Funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- Proprietary Funds – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City's combined net assets changed from a year ago, increasing from \$17,666,371 to \$19,147,281. Our analysis focuses on the net assets and changes in net assets of the City's governmental and business-type activities.

Table 1

Net Assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$1,634	\$1,285	\$7,475	\$7,399	\$9,109	\$8,684
Capital assets	1,476	1,057	16,095	15,616	17,571	16,753
Total assets	3,110	2,342	23,570	23,015	26,680	25,437
Long-term debt outstanding	1,006	1,126	5,840	5,990	6,846	7,116
Other liabilities	312	66	375	588	687	654
Total liabilities	1,318	1,192	6,215	6,578	7,533	7,770
Net assets:						
Invested in capital assets net of related debt	1,274	883	10,364	9,696	11,638	10,579
Restricted	999	999	489	477	1,488	1,476
Unrestricted (deficit)	(481)	(653)	6,502	6,264	6,021	5,611
Total net assets	\$1,792	\$1,229	\$17,355	\$16,437	\$19,147	\$17,666

Net assets of the City's governmental activities increased as of June 30, 2008 to \$1,792,000. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased \$172,000. Restricted net assets, those restricted mainly for capital projects and special purposes remained the same.

The net assets of business-type activities increased by 5.6 percent (\$17,355,000 compared to \$16,437,000).

Table 2

Changes in Net Assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-type Activities		Total Primary	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$294	\$302	\$5,918	\$5,339	\$6,212	\$5,641
Operating grants and contributions	205	156	-	378	205	534
Capital grants and contributions	469	7	161	-	630	7
General revenues:						
Property taxes	817	783	-	-	817	783
State shared	189	189	-	-	189	189
Cable franchise fees	20	19	-	-	20	19
Rental income	-	90	-	-	-	90
Sale of capital assets	58	-	-	-	58	-
Interest	17	14	-	-	17	14
Other	6	9	-	-	6	9
Total revenues	2,075	1,569	6,079	5,717	8,154	7,286
Expenses						
Governmental activities:						
General government	280	245	-	-	280	245
Public safety	315	342	-	-	315	342
Public works	701	823	-	-	701	823
Community and economic Development	5	12	-	-	5	12
Recreation and culture	93	101	-	-	93	101
Interest on long-term Debt	43	48	-	-	43	48
Utilities	-	-	5,228	5,078	5,228	5,078
Transfers	75	-	(67)	-	8	-
Total expenses and transfers	1,512	1,571	5,161	5,078	6,673	6,649
Changes in net assets	563	(2)	918	639	1,481	637
Net assets, beginning of year, as restated	1,229	1,231	16,437	15,798	17,666	17,029
Net assets, end of year	\$1,792	\$1,229	\$17,355	\$16,437	\$19,147	\$17,666

Governmental Activities

Revenues for the City's governmental activities increased \$506,000, primarily due to capital grants and sale of surplus assets, while expenses decreased by \$59,000. Property taxes increased \$34,000. State shared revenues were consistent with prior year at \$189,000.

Business-type Activities

Charges for services increased from the prior year by \$579,000 or 10.8% to \$5,918,000. Revenues for business-type activities increased by \$362,000 due to increased demand for utilities and rate increases implemented by the City Council in 2007. Expenses increased in the business-type activities by \$83,000.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At the end of fiscal year 2008 the governmental funds reported a *combined* fund balance of \$400,000 which is \$148,000 more than last year. The General Fund Undesignated Fund Balance at June 30, 2008 is \$276,000 which is 18% of 2007-2008 expenditures.

General Fund Budgetary Highlights

Amendments to the original budget were relatively minor for the year. Revenues were \$61,000 more than the amended budget of \$1,279,000. Actual expenditures in the General Fund were \$23,000 below final amended budget amount of \$1,048,000. Public works was over budget by \$20,000 of the amended budget of \$391,000 primarily due to the increased vehicle and equipment repairs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008 the City had \$17,571,000 invested in a broad range of capital assets including land, buildings, public safety equipment, roads, parks and electric, water and sewer lines. This amount includes a net increase (including additions and deductions) of \$818,000 or 5% over last year. The increase is due to the completion of the Griswold Street reconstruction project and the Lambrix substation upgrade. Additional information on capital assets can be found in note 6 in the notes to the financial statements.

Long-term Debt

At June 30, 2008 the City had \$6,846,000 in long-term debt outstanding. This is a decrease of \$267,000 from last year. The most significant outstanding debt includes \$740,000 for the Hart Area Public Library, \$595,000 for the 1998 Water/Sewer Refunding Bonds, \$640,000 Electric System Bonds for the 88th Avenue Substation, and the \$3,125,000 obligation to Oceana County for the 2001 Wastewater Treatment Plant Improvements. Additional information on long-term debt can be found in Note 8 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

State-shared revenues appear to be steady for fiscal year 2008-2009 with revenues projected at \$190,000 as the State of Michigan agreed to maintain funding levels.

Property taxes are expected to remain stable for fiscal year 2008-2009.

The street improvement millage rate of approximately 2 mills was reinstated by the voters in May 2005 for another 5-year term insuring revenues for street rehabilitation in the amount of about \$75,000 annually.

Based on comprehensive studies by a professional rate analyst, utility rates were increased in December 2003, July 2005, July 2006, and July 2007 to correct an ongoing imbalance between revenues and expenditures particularly in the Water/Sewer Fund. Overall, rates for water and sewer services were increased by 5% and 9%, respectively, in July of 2007. Electric rates were increased by 5% in July 2007. As a result of the four-year program to adjust utility rates, the proprietary funds realized operating income of \$693,000 in FY2008 compared to \$324,000 in FY2007, \$84,000 in FY2006, and a \$54,000 loss in FY2005. Utility rates were not increased in 2008. However, the City will review rates in 2009 to assure healthy utility funds.

The City completed the Griswold Street reconstruction project in the 2008 construction season with an estimated \$287,000 State of Michigan grant to assist with the \$515,000 project. The \$1.1 million Lambrix Industrial Park Substation Voltage Upgrade was completed in October, 2008.

The General Fund has increased its undesignated fund balance to 18% of expenditures after several years below 10%.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager's Office at 407 State Street, Hart, MI, 49420.

BASIC FINANCIAL STATEMENTS

City of Hart, Michigan
Statement of Net Assets
June 30, 2008

	Primary Government			Component Unit
	Governmental	Business-type		Tax Increment
	Activities	Activities	Total	Finance
				Authority
Assets				
Cash and cash equivalents	\$ 334,972	\$ 2,351,439	\$ 2,686,411	\$ 61,116
Receivables:				
Accounts	124,766	686,229	810,995	514
Due from other governmental units	234,168	-	234,168	-
Internal balances	12,774	(12,774)	-	-
Inventory	-	221,043	221,043	-
Restricted cash and cash equivalents	-	489,091	489,091	-
Long-term assets:				
Special assessments receivable	154,069	3,606,053	3,760,122	-
Leases receivable	740,000	-	740,000	-
Debt issuance costs, net	33,611	134,092	167,703	-
Capital assets:				
Not being depreciated	34,315	1,397,799	1,432,114	5,000
Being depreciated, net	1,442,131	14,696,820	16,138,951	-
Total assets	3,110,806	23,569,792	26,680,598	66,630
Liabilities				
Accounts payable	269,274	275,550	544,824	-
Accrued liabilities	19,836	71,304	91,140	-
Unearned revenue	22,400	28,122	50,522	-
Long-term liabilities:				
Accrued compensated absences:				
Due within one year	32,221	54,651	86,872	-
Due in more than one year	32,220	54,651	86,871	-
Bonds and notes payable:				
Due within one year	71,760	713,810	785,570	-
Due in more than one year	870,373	5,017,145	5,887,518	-
Total liabilities	1,318,084	6,215,233	7,533,317	-
Net assets				
Invested in capital assets, net of related debt	1,274,313	10,363,664	11,637,977	5,000
Restricted for:				
Street construction and maintenance	18,700	-	18,700	-
Parks improvement	36,162	-	36,162	-
Solid waste alternative program	45,218	-	45,218	-
Debt service	742,147	489,091	1,231,238	-
Capital projects	155,695	-	155,695	-
Unrestricted (deficit)	(479,513)	6,501,804	6,022,291	61,630
Total net assets	\$ 1,792,722	\$ 17,354,559	\$ 19,147,281	\$ 66,630

City of Hart, Michigan
Statement of Activities
For the Year Ended June 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
General government	\$ 280,167	\$ 32,743	\$ -	\$ -	\$ (247,424)
Public safety	314,771	3,571	12,406	-	(298,794)
Public works	701,230	151,218	192,299	468,699	110,986
Community and economic development	5,412	-	-	-	(5,412)
Recreation and culture	92,567	106,797	-	-	14,230
Interest on long-term debt	43,112	-	-	-	(43,112)
Total governmental activities	<u>1,437,259</u>	<u>294,329</u>	<u>204,705</u>	<u>468,699</u>	<u>(469,526)</u>
Business-type activities:					
Hydro-electric	3,176,241	3,882,196	-	-	705,955
Water	333,862	332,634	-	145,701	144,473
Sewer	1,718,355	1,703,287	-	15,623	555
Total business-type activities	<u>5,228,458</u>	<u>5,918,117</u>	<u>-</u>	<u>161,324</u>	<u>850,983</u>
Total primary government	<u>\$ 6,665,717</u>	<u>\$ 6,212,446</u>	<u>\$ 204,705</u>	<u>\$ 630,023</u>	<u>\$ 381,457</u>
Component unit					
Tax increment finance authority					
Public works	<u>\$ 2,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,451)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Statement of Activities (Concluded)
For the Year Ended June 30, 2008

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u>	<u>Business-type</u>		<u>Tax Increment</u>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Finance</u>
				<u>Authority</u>
Changes in net assets				
Net (expense) revenue	\$ (469,526)	\$ 850,983	\$ 381,457	\$ (2,451)
General revenues:				
Property taxes, levied for:				
General purposes	732,839	-	732,839	37,000
Specific purposes	84,640	-	84,640	-
State shared revenues	189,275	-	189,275	-
Cable franchise fees	19,618	-	19,618	-
Gain on sale of capital assets	58,500	-	58,500	-
Unrestricted interest earnings	16,635	-	16,635	336
Other	5,946	-	5,946	-
Transfers - internal activities	(75,000)	67,000	(8,000)	-
Total general revenues	1,032,453	67,000	1,099,453	37,336
Change in net assets	562,927	917,983	1,480,910	34,885
Net assets, beginning of year, as restated	1,229,795	16,436,576	17,666,371	31,745
Net assets, end of year	<u>\$ 1,792,722</u>	<u>\$ 17,354,559</u>	<u>\$ 19,147,281</u>	<u>\$ 66,630</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Library Debt Service	Starting Block Capital Project	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 240,849	\$ 7,231	\$ -	\$ 86,892	\$ 334,972
Receivables:					
Accounts	99,166	-	-	25,600	124,766
Special assessments	-	-	-	154,069	154,069
Leases	-	740,000	-	-	740,000
Due from other governmental units	-	-	210,341	23,827	234,168
Due from other funds	1,631	-	-	-	1,631
Advances to other funds	15,274	-	-	-	15,274
Total assets	\$ 356,920	\$ 747,231	\$ 210,341	\$ 290,388	\$ 1,604,880
Liabilities					
Accounts payable	\$ 52,648	\$ -	\$ 210,341	\$ 6,285	\$ 269,274
Accrued liabilities	12,955	-	-	1,797	14,752
Due to other funds	-	-	-	4,131	4,131
Deferred revenue	-	740,000	-	176,469	916,469
Total liabilities	65,603	740,000	210,341	188,682	1,204,626
Fund balances					
Reserved for:					
Advances	15,274	-	-	-	15,274
Unreserved, undesignated reported in:					
General fund	276,043	-	-	-	276,043
Special revenue funds	-	-	-	100,080	100,080
Debt service funds	-	7,231	-	-	7,231
Capital project funds	-	-	-	1,626	1,626
Total fund balances	291,317	7,231	-	101,706	400,254
Total liabilities and fund balances	\$ 356,920	\$ 747,231	\$ 210,341	\$ 290,388	\$ 1,604,880

The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$	400,254
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Add - nondepreciable capital assets		34,315
Add - depreciable capital assets, net		1,442,131

Certain assets, such as special assessments receivable are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred capital lease receivable		740,000
Add - deferred special assessments receivable		154,069

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements.

Deduct - bonds payable		(942,133)
Add - bond issuance costs		33,611
Deduct - compensated absences		(64,441)
Deduct - accrued interest on long-term liabilities		(5,084)

Net assets of governmental activities	\$	1,792,722
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The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	General Fund	Library Debt Service	Starting Block Capital Project	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 732,839	\$ -	\$ -	\$ 84,640	\$ 817,479
Licenses and permits	20,073	-	-	-	20,073
Intergovernmental revenues:					
Federal	-	-	460,341	-	460,341
State	190,330	-	-	190,058	380,388
Local	2,200	-	-	-	2,200
Charges for services	314,042	-	-	72,047	386,089
Fines and forfeitures	6,375	75,178	-	-	81,553
Investment earnings	12,382	-	-	4,059	16,441
Private contributions	-	-	-	6,300	6,300
Other	17,297	235	-	1,630	19,162
Total revenues	1,295,538	75,413	460,341	358,734	2,190,026
Expenditures					
Current:					
General government	220,562	-	-	-	220,562
Public safety	301,910	-	-	-	301,910
Public works	411,292	-	-	283,997	695,289
Community and economic development	5,412	-	-	-	5,412
Culture and recreation	11,232	-	-	64,442	75,674
Debt service:					
Principal	-	40,000	-	51,760	91,760
Interest	-	35,678	-	7,942	43,620
Capital outlay	75,412	-	460,341	41,741	577,494
Total expenditures	1,025,820	75,678	460,341	449,882	2,011,721
Revenues over (under) expenditures	269,718	(265)	-	(91,148)	178,305
Other financing sources (uses)					
Sale of capital assets	45,000	-	-	-	45,000
Transfers in	-	-	-	131,075	131,075
Transfers out	(206,075)	-	-	-	(206,075)
Total other financing sources (uses)	(161,075)	-	-	131,075	(30,000)
Net changes in fund balances	108,643	(265)	-	39,927	148,305
Fund balances, beginning of year	182,674	7,496	-	61,779	251,949
Fund balances, end of year	\$ 291,317	\$ 7,231	\$ -	\$ 101,706	\$ 400,254

The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net changes in fund balances - total governmental funds \$ 148,305

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation

Add - purchase of capital assets	530,765
Deduct - depreciation expense	(103,221)
Deduct - net book value of disposed capital assets	(88,500)

Special assessments and capital leases receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in deferred special assessments	(1,630)
Deduct - decrease in deferred lease receivable	(40,000)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	91,760
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add - decrease in accrued interest on bonds	508
Add - decrease in the accrual for compensated absences	28,007
Deduct - amortization of bond issuance costs	(3,067)

Change in net assets of governmental activities	\$ 562,927
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The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Statement of Revenues, Expenditures , and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Revenues:				
Property taxes	\$ 704,000	\$ 719,300	\$ 732,839	\$ 13,539
Licenses and permits	22,270	19,360	20,073	713
Intergovernmental revenues:				
State	172,240	182,240	190,330	8,090
Local	2,300	2,300	2,200	(100)
Charges for services	267,400	292,900	314,042	21,142
Fines and forfeitures	5,200	5,300	6,375	1,075
Investment earnings	2,700	4,400	12,382	7,982
Sale of capital assets	-	45,000	45,000	-
Other	500	8,500	17,297	8,797
Total revenues	1,176,610	1,279,300	1,340,538	61,238
Expenditures:				
Current:				
General government:				
City Council	13,810	12,000	10,681	(1,319)
Administrative	92,870	110,000	100,356	(9,644)
Elections	3,750	3,800	2,603	(1,197)
Assessor	55,620	52,000	50,331	(1,669)
Attorney	18,800	18,800	18,210	(590)
City Hall	24,290	22,280	21,381	(899)
Cemetery	17,000	17,000	17,000	-
Total general government	226,140	235,880	220,562	(15,318)
Public safety:				
Police	320,760	264,005	263,990	(15)
Fire	37,920	37,920	37,920	-
Total public safety	358,680	301,925	301,910	(15)
Public works:				
Department of public works	243,770	229,334	249,832	20,498
Solid waste	148,500	149,770	149,460	(310)
Street lighting	12,000	12,000	12,000	-
Total public works	404,270	391,104	411,292	20,188
Community and economic development	17,000	17,000	5,412	(11,588)
Culture and recreation	13,400	13,808	11,232	(2,576)
Debt service:				
Principal	26,930	-	-	-
Interest and fees	12,200	12,200	-	(12,200)
Total debt service	39,130	12,200	-	(12,200)

City of Hart, Michigan
Statement of Revenues, Expenditures , and Changes in Fund Balance
Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Expenditures (continued):				
Capital outlay	\$ -	\$ 76,495	\$ 75,412	\$ (1,083)
Total expenditures	1,058,620	1,048,412	1,025,820	(22,592)
Revenues over (under) expenditures	117,990	230,888	314,718	83,830
Other financing (uses)				
Transfers out	(117,460)	(213,788)	(206,075)	7,713
Net changes in fund balances	530	17,100	108,643	91,543
Fund balances, beginning of year	182,674	182,674	182,674	-
Fund balances, end of year	\$ 183,204	\$ 199,774	\$ 291,317	\$ 91,543

The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Statement of Fund Net Assets
Proprietary Funds
June 30, 2008

	Hydro Fund	Water Fund	Sewer Fund	Total
Assets				
Current assets:				
Cash and investments	\$ 2,163,138	\$ 361,439	\$ (173,138)	\$ 2,351,439
Accounts receivable	451,986	42,288	191,955	686,229
Due from other funds	2,500	-	-	2,500
Inventory	155,887	36,817	28,339	221,043
Total current assets	2,773,511	440,544	47,156	3,261,211
Noncurrent assets:				
Capital assets, net:				
Capital assets not being depreciated	1,269,346	41,788	86,665	1,397,799
Capital assets being depreciated, net	3,343,812	1,720,883	9,632,125	14,696,820
Total capital assets, net	4,613,158	1,762,671	9,718,790	16,094,619
Restricted cash	190,243	-	298,848	489,091
Advances to other funds	153,752	-	14,796	168,548
Bond issuance costs, net	23,697	-	110,395	134,092
Special assessments receivable	-	173,328	3,432,725	3,606,053
Total noncurrent assets	4,980,850	1,935,999	13,575,554	20,492,403
Total assets	7,754,361	2,376,543	13,622,710	23,753,614
Liabilities				
Current liabilities:				
Accounts payable	245,239	6,696	23,615	275,550
Accrued liabilities	28,845	7,252	35,207	71,304
Customer deposits	26,172	-	-	26,172
Unearned revenue	-	1,950	-	1,950
Accrued compensated absences, due in one year	29,031	6,895	18,725	54,651
Bonds and notes payable, due in one year	132,983	41,615	539,212	713,810
Total current liabilities	462,270	64,408	616,759	1,143,437
Noncurrent liabilities:				
Advances from other funds	-	-	183,822	183,822
Accrued compensated absences	29,031	6,894	18,726	54,651
Bonds payable, net of current maturities	897,872	290,499	3,828,774	5,017,145
Total noncurrent liabilities	926,903	297,393	4,031,322	5,255,618
Total liabilities	1,389,173	361,801	4,648,081	6,399,055
Net assets				
Invested in capital assets, net of related debt	3,582,303	1,430,557	5,350,804	10,363,664
Restricted for debt service	190,243	-	298,848	489,091
Unrestricted	2,592,642	584,185	3,324,977	6,501,804
Total net assets	\$ 6,365,188	\$ 2,014,742	\$ 8,974,629	\$ 17,354,559

The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Hydro Fund	Water Fund	Sewer Fund	Total
Operating revenues				
Charges for services	\$ 3,814,086	\$ 322,997	\$ 1,545,278	\$ 5,682,361
Operating expenses				
Administration	254,349	90,496	138,344	483,189
Operations	2,695,471	127,822	937,911	3,761,204
Depreciation and amortization	209,913	102,185	432,355	744,453
Total operating expenses	3,159,733	320,503	1,508,610	4,988,846
Operating income	654,353	2,494	36,668	693,515
Nonoperating revenues (expenses)				
Intergovernmental revenues - federal	-	145,701	15,623	161,324
Interest income	68,110	9,637	158,009	235,756
Interest expense	(16,508)	(13,359)	(209,745)	(239,612)
Total nonoperating revenues (expenses)	51,602	141,979	(36,113)	157,468
Net income before transfers	705,955	144,473	555	850,983
Transfers				
Transfers in	160,000	55,000	71,530	286,530
Transfers out	(160,000)	(55,000)	(4,530)	(219,530)
Total transfers	-	-	67,000	67,000
Change in net assets	705,955	144,473	67,555	917,983
Net assets, beginning of year	5,659,233	1,870,269	8,907,074	16,436,576
Net assets, end of year	<u>\$ 6,365,188</u>	<u>\$ 2,014,742</u>	<u>\$ 8,974,629</u>	<u>\$ 17,354,559</u>

The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

	Hydro Fund	Water Fund	Sewer Fund	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 3,875,880	\$ 329,409	\$ 1,680,586	\$ 5,885,875
Payments to suppliers	(2,423,772)	(146,976)	(1,077,684)	(3,648,432)
Payments to employees	(437,833)	(64,140)	(226,345)	(728,318)
Net cash provided by operating activities	1,014,275	118,293	376,557	1,509,125
Cash flows from noncapital financing activities				
Transfers in	160,000	55,000	71,530	286,530
Transfers out	(160,000)	(55,000)	(4,530)	(219,530)
Coverage of fund cash deficits	-	248,349	(248,349)	-
Payments on fund advances	30,590	-	(2,950)	27,640
Advances from other funds	-	-	(14,796)	(14,796)
Net cash provided by (used in) noncapital financing activities	30,590	248,349	(199,095)	79,844
Cash flows from capital and related financing activities				
Special assessments collected	-	1,834	340,407	342,241
Acquisition of capital assets	(820,929)	(332,797)	(56,202)	(1,209,928)
State grants received	-	145,701	15,623	161,324
Proceeds from issuance of long-term debt	390,855	92,462	-	483,317
Principal paid on long-term debt	(55,000)	(34,257)	(583,760)	(673,017)
Interest and fiscal charges paid	(36,881)	(11,724)	(215,564)	(264,169)
Net cash used in capital and related financing activities	(521,955)	(138,781)	(499,496)	(1,160,232)
Cash flows from investing activities				
Interest earned on investments	68,110	9,637	158,009	235,756
Net increase (decrease) in cash and cash equivalents	591,020	237,498	(164,025)	664,493
Cash and cash equivalents, beginning of year	1,762,361	123,941	289,735	2,176,037
Cash and cash equivalents, end of year	\$ 2,353,381	\$ 361,439	\$ 125,710	\$ 2,840,530
Statement of net assets classifications of cash and cash equivalents:				
Cash and investments	\$ 2,163,138	\$ 361,439	\$ (173,138)	\$ 2,351,439
Restricted cash	190,243	-	298,848	489,091
	\$ 2,353,381	\$ 361,439	\$ 125,710	\$ 2,840,530

(Continued)

City of Hart, Michigan
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2008

	Hydro Fund	Water Fund	Sewer Fund	Total
Cash flows from operating activities				
Operating income	\$ 654,353	\$ 2,494	\$ 36,668	\$ 693,515
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	209,913	102,185	432,355	744,453
Changes in operating assets and liabilities which provided (used) cash:				
Accounts receivable	61,937	6,412	135,308	203,657
Due from other funds	30,000	-	-	30,000
Inventories	(7,946)	(4,865)	(968)	(13,779)
Accounts payable	54,823	3,098	(241,313)	(183,392)
Accrued liabilities	(4,659)	(627)	327	(4,959)
Accrued compensated absences	15,997	9,596	14,180	39,773
Customer deposits	(143)	-	-	(143)
Net cash provided by operating activities	\$ 1,014,275	\$ 118,293	\$ 376,557	\$ 1,509,125

The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Private Purpose Trust Fund Historic District Commission</u>	<u>Agency Fund Tax Collection Fund</u>
Assets		
Cash and investments	\$ 21,105	\$ -
Liabilities		
Due to other governments	-	\$ -
Net assets		
Held in trust for benefits and other purposes	<u>\$ 21,105</u>	

The accompanying notes are an integral part of these financial statements.

City of Hart, Michigan
Statement of Changes In Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended June 30, 2008

	<u>Historic District Commission</u>
Additions	
Investment earnings	\$ 608
Transfers in	<u>8,000</u>
Total additions	8,608
Deductions:	
Administrative	<u>3,724</u>
Net change in fiduciary net assets	4,884
Net assets, beginning of year	<u>16,221</u>
Net assets, end of year	<u><u>\$ 21,105</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hart (the “City”) was incorporated June 30, 1954 under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Blended Component Unit

Building Authority – The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority’s debt remains with the City. The Authority is reported as a debt service and capital projects fund.

Discretely Presented Component Unit

The discretely presented component unit reported by the City is the Tax Increment Finance Authority (TIFA). The TIFA board is appointed by the City Council, but the board, after appointments, operates as a separate entity. The TIFA board can authorize and issue debt independent from the City. The TIFA is presented as a governmental fund type.

Related Organization

The City of Hart’s cemetery is a related organization which is excluded from the financial reporting entity because the City’s accountability does not extend beyond making appointments. Audited financial statements are available from the cemetery.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Library Debt Service Fund* is used to account for principal and interest payments on the Building Authority Bond issue and the offsetting capital lease receivable from the Hart Public Library.

The *Starting Block Capital Project Fund* is used to account for the accumulation and disbursement of funds for the Starting Block.

The City reports the following major proprietary funds:

The *Hydro Fund* – This fund is used to account for the costs of purchasing and distributing electricity to City residents. Revenues are primarily from charges to customers for electricity usage and service charges to customers. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the systems.

The *Water Fund* – This fund is used to account for the costs of providing water services to City residents. Revenues are primarily from charges to customers for water usage. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the systems.

The *Sewer Fund* – This fund is used to account for the costs of collecting and treating wastewater. Revenues are primarily from charges to customers based on water usage. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the systems.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for proceeds from specific revenue sources (other than or capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Fund* is used to account for the accumulation and disbursement of funds for capital projects.

The *Private Purpose Trust Fund* is used to account for resources held in trust for the Historic District Commission.

The *Agency Fund* is used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2008. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. The legal level of budgetary control is at the functional level.
6. Budgeted amounts are as originally adopted, or as amended by the City Council.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and temporary investments.

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

Investments

State statutes authorize the City to invest in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Restricted Assets

Certain resources set aside for the repayment of the City's enterprise fund revenue bonds, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added since 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds. Depreciation on capital assets (including infrastructure) of the primary government is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	25
Buildings	40
Vehicles and equipment	5-25
Utility systems	5-50
System infrastructure	10-20

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

Library debt service fund – capital lease receivable	\$740,000
Nonmajor governmental funds – special assessments	154,069
Unearned charges for services	<u>22,400</u>
	<u>\$916,469</u>

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Vacation leave earned as of June 30, 2008, is recorded in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Special Assessments

Special assessments in governmental funds are recorded as revenues when due, not when levied. Estimated annual installments not yet available are reflected as deferred revenue.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by the City.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended June 30, 2008, expenditures were incurred in excess of the amounts appropriated in the amended budget of the general fund as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Public works	\$ 391,104	\$ 411,292	\$ 20,188

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

3. ACCUMULATED FUND DEFICITS

As of June 30, 2008, the Creeks Drive capital projects fund had accumulated fund deficits of \$33,434. The deficit will be eliminated through collection of special assessments, future operations and transfers.

4. DEPOSITS AND INVESTMENTS

The captions on the government-wide and fund statements relating to cash and investments are as follows:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Component Unit	Total
Cash and cash investments	\$ 334,972	\$ 2,351,439	\$ 21,105	\$61,116	\$2,768,632
Restricted cash and cash investments	-	489,091	-	-	489,091
Total cash and pooled investments	\$ 334,972	\$ 2,840,530	\$ 21,105	\$61,116	\$3,257,723

These deposits are in three (3) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. Deposits and investments are recorded in City records at fair value. Interest is recorded when earned.

Cash and investments are composed of the following at June 30, 2008:

Checking/Savings Accounts	\$ 2,257,334
Certificates of Deposit (due within one year)	760,226
Money market mutual funds	239,711
Petty Cash	452
Total cash and investments	\$ 3,257,723

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	Maturity	Fair Value	Rating
Money market mutual funds	N/A	\$ 239,711	N/A

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" in the significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City had no investments with maturity dates at year end.

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" in the significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City had no investments with credit ratings at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$2,757,687 of the City's bank balance of \$3,177,281 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk-Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for the investment custodial risk. At year-end, the City had no investments subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

5. CAPITAL LEASE RECEIVABLE

The Building Authority Capital Projects Fund sold a building that it constructed to Hart District Library through a capital lease. The agreement requires annual payments of \$35,000 to \$70,000 plus interest at rates from 3.5% to 5% through June 2022.

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

6. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2008, are as follows:

Primary Government

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 89,315	\$ 25,000	\$ (80,000)	\$ 34,315
Construction in progress	43,988	-	(43,988)	-
Total capital assets, not being depreciated	133,303	25,000	(123,988)	34,315
Capital assets, being depreciated:				
Land improvements	31,710	-	-	31,710
Buildings and improvements	568,825	375,000	-	943,825
Vehicles and equipment	661,862	106,994	(50,000)	718,856
Infrastructure	624,404	67,759	-	692,163
Total capital assets being depreciated	1,886,801	549,753	(50,000)	2,386,554
Less accumulated depreciation for:				
Land improvements	3,488	1,268	-	4,756
Buildings and improvements	308,816	15,783	-	324,599
Vehicles and equipment	491,599	51,666	(41,500)	501,765
Infrastructure	78,799	34,504	-	113,303
Total accumulated depreciation	882,702	103,221	(41,500)	944,423
Net capital assets, being depreciated	1,004,099	446,532	(8,500)	1,442,131
Net governmental activities capital assets	\$ 1,137,402	\$ 471,532	\$ (132,488)	\$ 1,476,446
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 330,115	\$ 5,000	\$ -	\$ 330,115
Construction in progress	792,273	801,047	(525,636)	1,067,684
Total capital assets, not being depreciated:	1,122,388	801,047	(525,636)	1,397,799
Capital assets being depreciated:				
Hydro system	7,320,442	-	-	7,320,442
Water system	3,149,496	332,797	-	3,482,293
Sewer system	13,429,253	551,564	-	13,980,817
Furniture and equipment	657,023	50,156	-	707,179
Total capital assets being depreciated	24,556,214	934,517	-	25,490,731

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Less accumulated depreciation for:				
Hydro system	\$ 3,934,860	\$ 183,796	\$ -	\$ 4,118,656
Water system	1,692,429	98,114	-	1,790,543
Sewer system	3,966,247	415,663	-	4,381,910
Furniture and equipment	469,054	33,748	-	502,802
Total accumulated depreciation	<u>10,062,590</u>	<u>731,321</u>	<u>-</u>	<u>10,793,911</u>
Net capital assets, being depreciated	<u>14,493,624</u>	<u>203,196</u>	<u>-</u>	<u>14,696,820</u>
Net business-type activities capital assets	<u>\$ 15,616,012</u>	<u>\$ 1,004,243</u>	<u>\$ (525,639)</u>	<u>\$ 16,094,619</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 4,545
Public safety	12,861
Public works	67,627
Recreation and culture	<u>18,188</u>

Total depreciation expense – governmental activities	<u>\$ 103,221</u>
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Business-type activities:

Hydro	\$ 207,280
Water	102,184
Sewer	<u>421,857</u>

Total depreciation expense – business-type activities	<u>\$ 731,321</u>
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Discretely Presented Component Unit

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Tax Increment Financing Authority				
Capital assets, not being depreciated				
Land	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000</u>

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

7. INTERFUND PAYABLES, RECEIVABLES, AND TRANSFERS

Interfund receivables/payables consist of the following at year-end:

	<u>Due to</u>	<u>Due from</u>
Governmental activities:		
General fund	\$ -	\$ 1,631
Nonmajor governmental funds	4,131	-
Business-type activities:		
Hydro fund	-	2,500
	<u>\$ 4,131</u>	<u>\$ 4,131</u>
	<u>Advance to</u>	<u>Advance from</u>
Governmental activities:		
General fund	\$ 15,274	\$ -
Business-type activities:		
Hydro fund	153,752	-
Sewer fund	14,796	183,822
	<u>\$ 183,822</u>	<u>\$ 183,822</u>

Interfund balances represent borrowing to cover short-term cash flow needs as well as balances payable and receivable for goods and services received from and provided to other funds.

The composition of transfers for the year ended June 30, 2008, is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental activities:		
General fund	\$ -	\$ 206,075
Nonmajor governmental funds	131,075	-
	131,075	206,075
Business-type activities:		
Hydro fund	160,000	160,000
Water fund	55,000	55,000
Sewer fund	71,530	4,530
	286,530	219,530
Fiduciary funds:		
Private Purpose Trust fund	8,000	-
Total	<u>\$ 425,605</u>	<u>\$ 425,605</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund and other funds to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

8. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
Governmental activities					
General Obligation Debt:					
\$950,000 General Obligation Building Authority Bonds, Series 2003. Bonds due in annual installments of \$35,000 to \$70,000 through June 1, 2022; interest at 3.5 to 5%.	\$ 780,000	\$ -	\$ 40,000	\$ 740,000	\$ 40,000
\$85,000 General Obligation Bonds, Series 2004. Bonds due in annual installments of \$5,000 to \$10,000 through September 1, 2013; interest at 3.2 – 4%.	70,000	-	10,000	60,000	10,000
\$250,000 Michigan Transportation Fund Bonds, Series 1993. Bonds due in annual installments of \$20,000 through August 1, 2007; interest at 5.8%.	20,000	-	20,000	-	-
\$166,454 Special Assessment Bonds of 2004. Bonds due in annual installments of \$1,300 to \$26,800 through September 1, 2013; interest at 3 – 4%.	163,893	-	21,760	142,133	21,760
Total installment debt	1,033,893	-	91,760	942,133	71,760
Compensated absences	92,448	21,486	49,493	64,441	32,221
Total governmental activities	\$1,126,341	\$ 21,486	\$ 141,252	\$ 1,006,574	\$103,981
Business-type activities					
\$1,715,000 Water and Sewer Revenue Refunding Bonds, Series 1998. Bonds due in annual installments of \$110,000 to \$175,000 through July 1, 2012, interest at 4.8 – 5.2%.	\$ 730,000	\$ -	\$ 135,000	\$ 595,000	\$ 135,000

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
\$420,000 Water and Sewer Revenue Bonds, Series 2001. Bonds due in annual installments of \$35,000 to \$50,000 through July 1, 2011; interest at 4 – 4.5%.	\$ 190,000	\$ -	\$ 45,000	\$ 145,000	\$ 45,000
\$950,000 Electric Supply System Revenue Bonds, Series 2002. Bonds due in annual installments of \$55,000 to \$85,000 through April 1, 2017; interest at 3 – 4.7%.	695,000	-	55,000	640,000	60,000
\$142,000 Special Assessment Bonds, Series 1998. Bonds due in annual installments of \$15,000 to \$20,000 through September 1, 2007; interest at 4.4%.	20,000	-	20,000	-	-
\$483,546 Special Assessment Bonds, Series 2004. Bonds due in annual installments of \$3,700 to \$77,700 through September 1, 2013; interest at 3 – 4%.	476,106	-	63,240	412,866	63,240
\$5,165,000 obligation to Oceana County. due in annual installments of \$310,000 to \$455,000 through November 1, 2015; interest at 3.8 – 4.85%.	3,445,000	-	320,000	3,125,000	335,000
\$300,000 Revenue Bonds, Series 2001. Bonds due in annual installments of \$25,000 through July 1, 2018; interest 1.625% for the first 5 years. Afterwards, the rate will be 5-year treasury rates, less .27%.	275,000	-	25,000	250,000	25,000
\$390,855 2008 Lambrix Install Loan Due in annual installment of \$47,979 to \$49,100 through September 1, 2017; Interest at 4.38%	-	390,855	-	390,855	32,697

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
\$92,462 2008 Water Tank Install Loan due in annual installment of \$11,354 to \$11,586 through August 1, 2017; interest at 4.38%	\$ -	\$ 92,462	\$ -	\$ 92,462	\$ 7,705
\$108,000 note due to bank due in annual installments, including interest, of approximately \$13,300 through September 1, 2014; interest at 3.95%.	89,549	-	9,777	79,772	10,168
Total installment debt	5,920,655	483,317	673,017	5,730,955	713,810
Compensated absences	69,529	71,269	31,496	109,302	54,651
Total business-type activities	<u>\$ 5,990,184</u>	<u>\$ 554,586</u>	<u>\$ 704,513</u>	<u>\$ 5,840,257</u>	<u>\$ 768,461</u>

The annual requirements, excluding compensated absences, to maturity on the total long-term obligations outstanding at June 30, 2008 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 71,760	\$40,030	\$ 713,810	\$ 241,681
2010	71,760	37,518	725,018	210,827
2011	73,040	34,966	780,957	178,294
2012	79,320	32,322	771,995	144,029
2013	79,320	29,321	619,412	113,439
2014-2018	306,933	104,848	2,119,763	187,092
2019-2022	260,000	33,250	-	-
	<u>\$942,133</u>	<u>\$312,254</u>	<u>\$5,730,955</u>	<u>\$1,075,363</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

9. DEFINED CONTRIBUTION PENSION PLANS

The City also maintains three defined contribution retirement plans offered and administered by ICMA Retirement Corporation (ICMA). The City Services Defined Contribution Plan covers all City service employees hired on or after July 7, 1999 and all City services employees hired prior to July 7, 1999 who elected to convert from the defined benefit plan on July 7, 1999. The Non-Union Defined Contribution Plan covers all non-union employees hired on or after July 1, 1999 and all non-union employees hired prior to July 1, 1999 who elected to convert from the defined benefit plan on July 1, 1999. All prior defined benefit plans are closed. The Public Safety Defined Contribution Plan covers all public safety officers, lieutenants and sergeants hired on or after January 1, 2002 and all officers, lieutenants and sergeants hired prior to January 1, 2002 who elected to convert to the defined contribution plan on January 1, 2002. For the year ended June 30, 2008, the City contributed \$30,906 and employees contributed \$15,267 to the plans.

City of Hart, Michigan

Notes to Financial Statements

For the Year Ended June 30, 2008

10. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City does not contribute to the plan. All assets of the plan are held in trust for employees and the related assets and liabilities are not included in this report.

11. RESTATEMENT

Beginning net assets of governmental activities and capital assets not being depreciated were increased by \$80,000 to properly account for land purchased in 2001 that was not recorded in prior years.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

City of Hart, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue Funds			
	Major Streets	Local Streets	Park	Solid Waste Alternative Program
Assets				
Cash and investments	\$ -	\$ -	\$ 37,096	\$ 45,218
Receivables				
Accounts	-	-	25,600	-
Special assessments	-	-	-	-
Due from other governmental units	15,377	6,819	-	-
	<hr/>			
Total assets	\$ 15,377	\$ 6,819	\$ 62,696	\$ 45,218
	<hr/>			
Liabilities				
Accounts payable	\$ -	\$ -	\$ 3,333	\$ -
Accrued liabilities	610	386	801	-
Due to other funds	-	2,500	-	-
Deferred revenue	-	-	22,400	-
	<hr/>			
Total liabilities	610	2,886	26,534	-
	<hr/>			
Fund balances (deficits)				
Unreserved:				
Undesignated, reported in				
Special Revenue Funds	14,767	3,933	36,162	45,218
Capital Projects Funds	-	-	-	-
	<hr/>			
Total fund balances (deficits)	14,767	3,933	36,162	45,218
	<hr/>			
Total liabilities and fund balances (deficits)	\$ 15,377	\$ 6,819	\$ 62,696	\$ 45,218
	<hr/>			

Debt Service Fund	Capital Projects Funds						
1993 MTF Bonds Debt Retirement	Street Improvements	Enterprise Drive	Creeks Drive	Brownfield Reclamation	Skatepark		Total Other Governmental Funds
\$ -	\$ 29,378	\$ 2,334	\$ (33,434)	\$ -	\$ 6,300	\$	86,892
-	-	-	-	-	-		25,600
-	-	8,149	145,920	-	-		154,069
-	-	-	-	1,631	-		23,827
<u>\$ -</u>	<u>\$ 29,378</u>	<u>\$ 10,483</u>	<u>\$ 112,486</u>	<u>\$ 1,631</u>	<u>\$ 6,300</u>	<u>\$</u>	<u>290,388</u>
\$ -	\$ 2,952	\$ -	\$ -	\$ -	\$ -	\$	6,285
-	-	-	-	-	-		1,797
-	-	-	-	1,631	-		4,131
-	-	8,149	145,920	-	-		176,469
<u>-</u>	<u>2,952</u>	<u>8,149</u>	<u>145,920</u>	<u>1,631</u>	<u>-</u>		<u>188,682</u>
-	-	-	-	-	-		100,080
-	26,426	2,334	(33,434)	-	6,300		1,626
<u>-</u>	<u>26,426</u>	<u>2,334</u>	<u>(33,434)</u>	<u>-</u>	<u>6,300</u>		<u>101,706</u>
<u>\$ -</u>	<u>\$ 29,378</u>	<u>\$ 10,483</u>	<u>\$ 112,486</u>	<u>\$ 1,631</u>	<u>\$ 6,300</u>	<u>\$</u>	<u>290,388</u>

City of Hart, Michigan
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue Funds			
	Major Streets	Local Streets	Park	Solid Waste Alternative Program
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental:				
State	97,100	44,819	-	-
Charges for services	-	-	71,619	-
Investment earnings	41	-	1,048	1,382
Private contributions	-	-	-	-
Other	-	-	-	-
Total revenues	97,141	44,819	72,667	1,382
Expenditures				
Current:				
Public works	136,990	98,810	-	58
Culture and recreation	-	-	64,442	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	136,990	98,810	64,442	58
Revenues over (under) expenditures	(39,849)	(53,991)	8,225	1,324
Transfers				
Transfers in	36,743	51,040	-	-
Net changes in fund balances (deficits)	(3,106)	(2,951)	8,225	1,324
Fund balances (deficits), beginning of year	17,873	6,884	27,937	43,894
Fund balances (deficits), end of year	\$ 14,767	\$ 3,933	\$ 36,162	\$ 45,218

Debt Service Fund	Capital Projects Funds						
1993 MTF Bonds Debt Retirement	Street Improvements	Enterprise Drive	Creeks Drive	Brownfield Reclamation	Skatepark	Total Other Governmental Funds	
\$ -	\$ 84,640	\$ -	\$ -	\$ -	\$ -	\$ 84,640	
-	-	-	-	48,139	-	190,058	
-	-	428	-	-	-	72,047	
-	1,588	-	-	-	-	4,059	
-	-	-	-	-	6,300	6,300	
-	-	1,630	-	-	-	1,630	
-	86,228	2,058	-	48,139	6,300	358,734	
-	-	-	-	48,139	-	283,997	
-	-	-	-	-	-	64,442	
20,000	-	10,000	21,760	-	-	51,760	
580	-	2,194	5,168	-	-	7,942	
-	41,741	-	-	-	-	41,741	
20,580	41,741	12,194	26,928	48,139	-	449,882	
(20,580)	44,487	(10,136)	(26,928)	-	6,300	(91,148)	
4,169	-	12,195	26,928	-	-	131,075	
(16,411)	44,487	2,059	-	-	6,300	39,927	
16,411	(18,061)	275	(33,434)	-	-	61,779	
\$ -	\$ 26,426	\$ 2,334	\$ (33,434)	\$ -	\$ 6,300	\$ 101,706	

City of Hart, Michigan
Schedule of Revenues, Expenditures
and Changes in Fund Balances
Budget and Actual
Major Streets Fund
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Revenues				
Intergovernmental:				
State	\$ 100,200	\$ 112,465	\$ 97,100	\$ (15,365)
Investment earnings	-	-	41	41
Total revenues	100,200	112,465	97,141	(15,324)
Expenditures				
Current:				
Public works	88,946	148,208	136,990	(11,218)
Revenues over (under) expenditures	11,254	(35,743)	(39,849)	(4,106)
Other financing uses				
Transfers in	-	36,743	36,743	-
Transfers out	(10,000)	-	-	-
Total other financing uses	(10,000)	36,743	36,743	-
Net changes in fund balances	1,254	1,000	(3,106)	(4,106)
Fund balances, beginning of year	17,873	17,873	17,873	-
Fund balances, end of year	\$ 19,127	\$ 18,873	\$ 14,767	\$ (4,106)

City of Hart, Michigan
Schedule of Revenues, Expenditures
and Changes in Fund Balances
Budget and Actual
Local Streets Fund
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Revenues				
Intergovernmental:				
State	\$ 46,200	\$ 58,168	\$ 44,819	\$ (13,349)
Expenditures				
Current:				
Public works	67,650	108,208	98,810	(9,398)
Revenues (under) expenditures	(21,450)	(50,040)	(53,991)	(3,951)
Other financing sources				
Transfers in	22,000	51,040	51,040	-
Net changes in fund balances	550	1,000	(2,951)	(3,951)
Fund balances, beginning of year	6,884	6,884	6,884	-
Fund balances, end of year	\$ 7,434	\$ 7,884	\$ 3,933	\$ (3,951)

City of Hart, Michigan
Schedule of Revenues, Expenditures
and Changes in Fund Balances
Budget and Actual
Park Fund
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Revenues				
Charges for services	\$ 75,200	\$ 75,200	\$ 71,619	\$ (3,581)
Investment earnings	200	200	1,048	848
Total revenues	75,400	75,400	72,667	(2,733)
Expenditures				
Current:				
Culture and recreation	66,360	66,360	64,442	(1,918)
Capital outlay	6,000	6,000	-	(6,000)
Total expenditures	72,360	72,360	64,442	(7,918)
Net changes in fund balances	3,040	3,040	8,225	5,185
Fund balances, beginning of year	27,937	27,937	27,937	-
Fund balances, end of year	\$ 30,977	\$ 30,977	\$ 36,162	\$ 5,185

City of Hart, Michigan
Schedule of Revenues, Expenditures
and Changes in Fund Balances
Budget and Actual
Solid Waste Alternative Program Fund
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Revenues				
Investment earnings	\$ 100	\$ 100	\$ 1,382	\$ 1,282
Other	5,000	5,000	-	(5,000)
Total revenues	5,100	5,100	1,382	(3,718)
Expenditures				
Current:				
Public works	5,000	5,000	58	(4,942)
Net changes in fund balances	100	100	1,324	1,224
Fund balances, beginning of year	43,894	43,894	43,894	-
Fund balances, end of year	\$ 43,994	\$ 43,994	\$ 45,218	\$ 1,224

City of Hart, Michigan
Balance Sheet
Tax Increment Financing Authority
June 30, 2008

Assets

Cash and investments	\$	61,116
Accounts receivable		514
Total assets	\$	61,630

Fund balances

Unreserved, undesignated	\$	61,630
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City of Hart, Michigan
Reconciliation of Fund Balances on the Balance Sheet
for Tax Increment Financing Authority to Net Assets
of Component Unit on the Statement of Net Assets
June 30, 2008

Fund balances - tax increment financing authority	\$ 61,630
---	-----------

Amounts reported for *componmt unit* in the statement of net assets are different because:

Capital assets used in the component unit are not financial resources, and therefore are not reported in the fund statements.

Add - nondepreciable capital assets	<u>5,000</u>
-------------------------------------	--------------

Net assets of component unit	<u><u>\$ 66,630</u></u>
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City of Hart, Michigan
Statement of Revenues, Expenditures
and Changes in Fund Balances
Tax Increment Financing Authority
For the Year Ended June 30, 2008

Revenues

Property taxes	\$ 37,000
Investment earnings	<u>336</u>
Total revenues	37,336

Expenditures

Current:	
Public works	<u>2,451</u>
Net changes in fund balances	34,885

Fund balances, beginning of year	<u>26,745</u>
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Fund balances, end of year	<u><u>\$ 61,630</u></u>
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City of Hart, Michigan

**Reconciliation of Net Changes in Fund Balances on the Statement of Revenues, Expenditures
and Changes in Fund Balances for Tax Increment Financing Authority
to Changes in Net Assets of Component Unit on the Statement of Activities
For the Year Ended June 30, 2008**

Net changes in fund balances - tax increment financing authority	<u><u>\$ 34,885</u></u>
Change in net assets of component unit	<u><u>\$ 34,885</u></u>



CITY OF HART, MICHIGAN

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

City of Hart, Michigan
Single Audit Report

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REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

December 19, 2008

Honorable Mayor and
Members of the City Council
City of Hart, Michigan
Hart, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information the ***City of Hart, Michigan***, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the entity's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1 through 2008-3 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider each of the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Hart, Michigan in a separate letter dated December 19, 2008.

The City of Hart, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Hart, Michigan's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 19, 2008

Honorable Mayor and
Members of the City Council
City of Hart, Michigan
Hart, Michigan

Compliance

We have audited the compliance of ***City of Hart, Michigan*** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The entity's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the entity's management. Our responsibility is to express an opinion on the entity's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the entity's compliance with those requirements.

In our opinion, the City of Hart, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the entity's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities of the City of Hart, Michigan as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

City of Hart, Michigan
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Agency or Pass- through Number	Federal Expenditures
U.S. Department of Commerce			
Direct program:			
Economic Adjustment Assistance:			
Starting Block project	11.307	06-79-05253	\$ 210,341
U.S. Department of Housing and Urban Development			
Passed-through Michigan Strategic Fund:			
Community Development Block Grant/Small Cities Program:			
Griswold lift station	14.228	MSC 205059-ICE	15,623
Water storage tank improvement	14.228	MSC 206019-ICE	145,701
Starting Block project	14.228	MSC 207028-EDIB	250,000
Total U.S. Department of Housing and Urban Development			411,324
Total Expenditures of Federal Awards			\$ 621,665

Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements due to different classifications used for financial statement purposes.

City of Hart, Michigan

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal controls over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? yes X none reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? yes X no

Identification of Major Programs

CFDA Number

14.228

Name of Federal Program or Cluster

Community Development Block
Grants/Small Cities Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

City of Hart, Michigan

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of various year end accruals and other adjustments, as well as the drafting of the financial statements and footnotes as part of its external financial reporting process.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the City's internal accounting records were initially misstated by amounts material to the financial statements. In addition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

City of Hart, Michigan

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

Finding 2008-2– Material Audit Adjustments

Criteria:	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances. These adjustments included valuation adjustments for the receivables, capital asset additions, disposals and depreciation in the Water, Sewer and Hydro Electric Funds and a prior period adjustment for the government-wide statements for a parcel of land that had not been recorded as an asset.
Cause:	This condition was the result of various oversights by management in reconciling the general ledger and closing out the fiscal year.
Effect:	As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.
Recommendation:	We recommend that the City reconcile all general ledgers to subsidiary detail on a monthly basis in order to have a more accurate financial picture throughout the year.
View of Responsible Officials:	The City will correct this condition by requiring the City Manager to review monthly reconciliations to supporting detail and ledgers and/or retaining contractual accounting services to eliminate material audit adjustments.

Finding 2008-3 – Segregation of Incompatible Duties

Criteria:	Management is responsible for establishing effective internal controls to safeguard the City's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.
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City of Hart, Michigan

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

Finding 2008-3 – Segregation of Incompatible Duties (Concluded)

Condition:	As is the case with many municipalities of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Events of recent year have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal control carries with it a greater risk of fraud and abuse.
Cause:	This condition is a result of the City's limited resources, and the small size of its accounting staff.
Effect:	As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.
Recommendation:	While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.
View of Responsible Officials:	The City Council is aware of the risks associated with this condition, and has made the determination that given the City's limited resources, full segregation of duties is not feasible at this time. Accordingly, the City Council will continue to review monthly information to mitigate this risk, and rely on the annual external audit to help identify and correct misstatements, as needed.

SECTION III – FEDERAL AWARD FINDINGS

None

City of Hart, Michigan

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2008

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

- Finding 2007-1:** Segregation of incompatible duties. This finding was repeated in the current year as item 2008-3.
- Finding 2007-2:** Lack of internal controls over preparation of financial statements in accordance with generally accepted accounting principles (GAAP). This finding was repeated in the current year as item 2008-1.
- Finding 2007-3:** Material audit adjustments necessary to adjust the City's general ledger to the appropriate balances. This finding was repeated in the current year as item 2008-2.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

December 19, 2008

Honorable Mayor and
Members of the City Council
City of Hart

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Hart** (the "City") for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated October 27, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the ***U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*** applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on November 27, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivables is based on prior collection experience.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. As described in our report on internal control and other matters, we proposed various material audit adjustments which, when aggregated, had a significant effect on the City's reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *City of Hart* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

City of Hart
Comments and Recommendations
For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the City of Hart as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

Other Matters

New Accounting Standard - Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board recently issued Statement No. 43, Financial Reporting for Post Employment Benefit Plans other than Pension Plans. Statement No. 43 will become effective for the City for fiscal year 2009 and will require additional note disclosures, an actuarial evaluation of the City's OPEB plan, and possible recognition of OPEB expenses in the government-wide financial statements based on actuarially determined amounts.

The implementation of this new standard will require the City to make certain decisions regarding the funding of its OPEB liabilities. We are available to discuss this with management and/or to assist the City with properly accounting for its OPEB transactions in future periods, as needed.

City of Hart
Comments and Recommendations
For the Year Ended June 30, 2008

Earned Time Off

The City has been accruing earned time off payable to employees using a schedule found in the personnel manual modified in November 2005. Based on our discussions with City staff, it appears that this document was never formally approved by the City Council. Due to the responsibility of the governing board to maintain adequate control over public funds, we recommend that the personnel manual and all related policies be reviewed and approved by the City Council.

Information Technology Controls

In connection with the implementation of the new Audit Risk Suite, we reviewed with management a list of information technology (IT) controls in place at the City. We noted various opportunities to enhance controls over IT as it relates to system security and formal IT policies and procedures. We recommend that the City review the suggested controls not currently in place and consider whether it would be cost beneficial to implement such controls in the future. The recommended policies included;

- Have a specific disaster recovery plan in place;
- Policy requiring the use of complex passwords;
- Policy requiring passwords be changed periodically;
- Policy requiring each user to have a unique password that is not shared;
- Procedures in place for adding/changing/deleting users to the network;
- Procedures in place to detect and/or prevent the use of unauthorized software;
- Policy to ensure end-users computing, including spreadsheets and other user-developed programs used for financial reporting, are documented and regularly reviewed to ensure processing integrity; and
- Procedures to assure the completeness and accuracy of the batch total.

Procedures to reject at the point of data entry for transaction data entries.

Investment and Bank Statement Reconciliation Review

The City does not currently have a policy requiring cash and investment statements and reconciliations to be reviewed by an individual other than the preparer. In order to enhance internal controls over this area, we recommend that all such reconciliations be reviewed monthly, and such review be evidenced by initialing and dating of the forms by the designated reviewer.

City of Hart
Comments and Recommendations
For the Year Ended June 30, 2008

Documentation of Inactive Accounts Receivable Balances

The City maintains outstanding utility billings that have been determined to be inactive or slow in collection on the Outstanding Balances Inactive Detail Report. The financial accounting system will only allow this report to be generated as of the current date. The City had not retained the report for June 30, 2008; therefore for audit purposes we were unable to review this report as of year end. We recommend that for future audits, the June 30 Outstanding Balances Inactive Detail Report be retained.

Formal Policy for Approval of Invoices Prior to Payment

According to the Michigan Department of Treasury, the legislative body must approval all invoices prior to payment, unless addressed otherwise in the charter. The City currently does not have a formal policy for approval of invoices prior to payment. We recommend a formal policy to be written and approved by the City Council.

Cash Deposits of Agency Funds

The City records cash deposits for agency funds on a handwritten spreadsheet and posts this activity to the agency fund as disbursements are made. We recommend that the agency funds cash deposits be recorded in the same manner as other City receipts and recorded in the general ledger when received.

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City of Hart
Schedule of Adjustments Passed (SOAP)
For the June 30, 2008 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Fund Balance	Revenue	Expenses/ Expenditures
General Fund					
Amounts due at year end to the Hydro Fund for electrical service.	\$ -	\$ (2,148)	\$ -	\$ -	\$ (2,148)
	-	(2,148)	-	-	(2,148)
Street Improvements Fund					
Amount paid for Water Study completed prior to year-end.	-	(545)	-	-	(545)
	-	(545)	-	-	(545)
Sewer Fund					
Amount to record bond issuance cost in agreement with amortization schedules.	8,990	-	-	-	(8,990)
Amount to reduced accrued liabilities for amount recorded in 286 Fund, when should be zero.	-	3,484	-	-	3,484
Amounts due at year end to the Hydro Fund for electrical service.	-	(27,999)	-	-	(27,999)
	8,990	(24,515)	-	-	(33,505)